

AMTECH CORPORATION  
CONSOLIDATED BALANCE SHEETS

December 31, 1991 and 1990

ASSETS

	<u>1991</u>	<u>1990</u>
Current assets:		
Cash and short-term investments	\$ 11,964,000	\$ 7,459,000
Accounts receivable, net of allowance for doubtful accounts of \$152,000 in 1991 and \$110,000 in 1990 (Note 11)	2,123,000	5,815,000
Inventories (Note 2)	3,677,000	3,487,000
Prepaid expenses	<u>107,000</u>	<u>139,000</u>
Total current assets	17,871,000	16,900,000
Equipment and improvements, at cost (Note 3)	7,481,000	6,463,000
Accumulated depreciation	<u>(3,198,000)</u>	<u>(1,953,000)</u>
	4,283,000	4,510,000
Other assets	<u>837,000</u>	<u>859,000</u>
	<u>\$ 22,991,000</u>	<u>\$ 22,269,000</u>

AMTECH CORPORATION  
CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 1991 and 1990

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1991</u>	<u>1990</u>
Current liabilities:		
Accounts payable	\$ 935,000	\$ 893,000
Accrued expenses	1,685,000	1,238,000
Customer advance payments	<u>1,697,000</u>	<u>1,213,000</u>
Total current liabilities	4,317,000	3,344,000
Deferred license revenues (Note 11)	2,709,000	-
Commitments (Notes 7 and 11)		
Stockholders' equity (Notes 1 and 5):		
Preferred stock, \$1 par value, 10,000,000 shares authorized; none outstanding	-	-
Common stock, \$.01 par value, 30,000,000 shares authorized; shares issued and outstanding: 10,138,515 in 1991 and 9,727,049 in 1990	101,000	97,000
Additional paid-in capital	44,671,000	42,650,000
Accumulated deficit	<u>(28,807,000)</u>	<u>(23,822,000)</u>
Total stockholders' equity	<u>15,965,000</u>	<u>18,925,000</u>
	<u>\$ 22,991,000</u>	<u>\$ 22,269,000</u>

See accompanying notes.

AMTECH CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1991, 1990 and 1989

	<u>1991</u>	<u>1990</u>	<u>1989</u>
Sales (Note 8)	\$ 18,748,000	\$ 14,770,000	\$ 6,017,000
Operating costs and expenses:			
Cost of sales	11,563,000	10,123,000	4,012,000
Research and development	1,963,000	2,835,000	2,714,000
Marketing, general and administrative	<u>10,640,000</u>	<u>10,654,000</u>	<u>6,976,000</u>
	<u>24,166,000</u>	<u>23,612,000</u>	<u>13,702,000</u>
Operating loss	(5,418,000)	(8,842,000)	(7,685,000)
Other income:			
Interest	433,000	1,181,000	421,000
Contract settlement (Note 9)	<u>-</u>	<u>687,000</u>	<u>-</u>
	<u>433,000</u>	<u>1,868,000</u>	<u>421,000</u>
Net loss	<u>\$ (4,985,000)</u>	<u>\$ (6,974,000)</u>	<u>\$ (7,264,000)</u>
Loss per share (Note 1)	<u>\$ (0.50)</u>	<u>\$ (0.71)</u>	<u>\$ (1.32)</u>
Weighted average shares outstanding	<u>9,926,940</u>	<u>9,759,515</u>	<u>5,517,680</u>
Pro forma loss per share (Note 1)	<u>N/A</u>	<u>N/A</u>	<u>\$ (1.02)</u>
Pro forma weighted average shares outstanding	<u>N/A</u>	<u>N/A</u>	<u>7,121,487</u>

See accompanying notes.

AMTECH CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 1991, 1990 and 1989

	Series A		Preferred stock Series B		Series C		Common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 1988	489,334	\$ 489,000	50,916	\$ 51,000	50,916	\$ 51,000	4,583,014	\$ 46,000	\$ 15,213,000	\$ (9,584,000)	\$ 6,266,000
Issuance of stock dividends	26,142	26,000	3,455	3,000	3,455	3,000	-	-	(32,000)	-	-
Issuance of stock for cash	-	-	35,633	36,000	35,633	36,000	628,960	6,000	4,922,000	-	5,000,000
Conversion of preferred stock to common stock	(515,476)	(515,000)	(90,004)	(90,000)	(90,004)	(90,000)	1,669,158	17,000	678,000	-	-
Initial public offering of common stock, net of offering costs (Note 5)	-	-	-	-	-	-	2,760,000	27,000	21,495,000	-	21,522,000
Net loss	-	-	-	-	-	-	-	-	-	(7,264,000)	(7,264,000)
Balance, December 31, 1989	-	-	-	-	-	-	9,641,132	96,000	42,276,000	(16,848,000)	25,524,000
Exercise of stock options for cash (Note 5)	-	-	-	-	-	-	85,917	1,000	374,000	-	375,000
Net loss	-	-	-	-	-	-	-	-	-	(6,974,000)	(6,974,000)
Balance, December 31, 1990	-	-	-	-	-	-	9,727,049	97,000	42,650,000	(23,822,000)	18,925,000
Exercise of stock options for cash (Note 5)	-	-	-	-	-	-	411,466	4,000	2,021,000	-	2,025,000
Net loss	-	-	-	-	-	-	-	-	-	(4,985,000)	(4,985,000)
Balance, December 31, 1991	-	\$ -	-	\$ -	-	\$ -	10,138,515	\$ 101,000	\$ 44,671,000	\$ (28,807,000)	\$ 15,965,000

See accompanying notes.

AMTECH CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1991, 1990 and 1989

	1991	1990	1989
Cash flows from operating activities:			
Net loss	\$ (4,985,000)	\$ (6,974,000)	\$ (7,264,000)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	1,488,000	1,140,000	707,000
Change in assets and liabilities:			
(Increase)decrease in accounts receivable	3,692,000	(3,973,000)	(837,000)
Increase in inventories	(190,000)	(1,782,000)	(831,000)
(Increase)decrease in prepaid expenses	32,000	(68,000)	(35,000)
Decrease in other assets	104,000	135,000	-
Increase in current liabilities	973,000	1,677,000	474,000
Increase in deferred license revenues	<u>2,709,000</u>	<u>-</u>	<u>-</u>
Total adjustments	<u>8,808,000</u>	<u>(2,871,000)</u>	<u>(522,000)</u>
Net cash provided (used) by operating activities	3,823,000	(9,845,000)	(7,786,000)
Cash flows from investing activities:			
Capital expenditures:			
Equipment and improvements	(1,130,000)	(1,898,000)	(2,468,000)
Other assets	<u>(213,000)</u>	<u>(385,000)</u>	<u>(316,000)</u>
Net cash used by investing activities	<u>(1,343,000)</u>	<u>(2,283,000)</u>	<u>(2,784,000)</u>
Cash flows from financing activities:			
Net proceeds from initial public offering of common stock	-	-	21,522,000
Net proceeds from other issuances of common and preferred stock	<u>2,025,000</u>	<u>375,000</u>	<u>5,000,000</u>
Net cash provided by financing activities	<u>2,025,000</u>	<u>375,000</u>	<u>26,522,000</u>
Increase (decrease) in cash and short-term investments	4,505,000	(1,753,000)	15,952,000
Cash and short-term investments, beginning of period	<u>7,459,000</u>	<u>1,212,000</u>	<u>3,260,000</u>
Cash and short-term investments, end of period	<u>\$ 11,964,000</u>	<u>\$ 7,459,000</u>	<u>\$ 19,212,000</u>

See accompanying notes.

## AMTECH CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Summary of significant accounting policies

Consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. Investments in equity investees are accounted for using the equity method of accounting.

Inventories - Inventories are stated at the lower of cost (first-in, first-out) or market.

Depreciation and amortization - Depreciation of equipment and improvements is provided using the straight-line method over estimated useful lives ranging from five to seven years.

Amortization of software is provided using the straight-line method over a period of five years.

Amortization of patents is provided on the straight-line basis over their remaining statutory lives. These lives range from ten to fifteen years.

Amortization of goodwill is provided on the straight-line basis over a period of twenty-five years.

Revenue recognition - Generally, sales are recorded when products are shipped or services are rendered. Sales under research and development and construction-type contracts are recorded as costs are incurred and include estimated profits calculated on the basis of the relationship between costs incurred and total estimated costs (cost-to-cost type of percentage-of-completion method of accounting). In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income.

Research and development arrangements - The Company enters into contracts to perform certain research and development for others. In general, these contracts provide for an initial period of prototype design, followed by further development and product engineering as required to produce preproduction prototypes. The Company recognized cost of sales of \$1,946,000, \$2,305,000 and \$849,000 for research and development contracts in 1991, 1990 and 1989, respectively.

Statements of cash flows - The Company's short-term investments, primarily money market funds, have maturities of three months or less at the date of purchase and are considered cash equivalents in the accompanying consolidated statements of cash flows.

Loss per share - The computation of loss per share is based on the weighted average number of outstanding common shares. Additionally, in accordance with regulations of the Securities and Exchange Commission, antidilutive stock options granted in March, 1989, are included in weighted average shares outstanding for all periods presented. Net loss used in the 1989 computation is increased by the effects of preferred stock dividends.

Pro forma loss per share in 1989 assumes all outstanding shares of preferred stock were converted into shares of common stock since the date of their issuance.

Segment data - The Company operates in one industry segment, the designing, manufacturing and marketing of hardware and software products based on radio frequency electronic identification technology.

Risk concentration - Financial instruments which potentially subject the Company to concentrations of credit risk are short term cash investments and accounts receivable. The Company places its short term cash investments in investment grade, money market funds and limits the amount of credit exposure to any one financial institution. The Company sells products and services to a limited number of customers throughout the world associated with the transportation industry. The Company continuously evaluates the credit worthiness of its customers' financial condition and generally does not require collateral. The Company's allowance for doubtful accounts is based on current market conditions and losses on uncollectible accounts have consistently been within management's expectations.

Common stock split - In February 1992, the Company effected a three for two split of its common stock in the form of a stock dividend. Share and per share amounts for all periods presented have been adjusted to reflect this stock split.

2. Inventories

Inventories consist of the following:

	December 31	
	1991	1990
Raw materials	\$ 1,528,000	\$ 1,500,000
Work in process	1,334,000	1,426,000
Finished goods	815,000	561,000
	<u>\$ 3,677,000</u>	<u>\$ 3,487,000</u>

3. Equipment and improvements

Equipment and improvements consist of the following:

	December 31	
	1991	1990
Manufacturing, test and other equipment	\$ 3,758,000	\$ 2,728,000
Computer equipment	2,680,000	2,573,000
Office equipment, furniture and fixtures	638,000	742,000
Other	405,000	420,000
	<u>\$ 7,481,000</u>	<u>\$ 6,463,000</u>

4. Line of credit

Prior to the initial public offering in November, 1989 (Note 5), the Company obtained a bank line of credit up to \$2,000,000, of which \$1,000,000 was advanced to the Company. Advances were repaid upon receipt of the net proceeds of the public offering, and the line of credit agreement was terminated effective January 1990.

## 5. Capital stock

Initial public offering - Effective November 8, 1989, the Company completed its initial public offering by selling 2,400,000 shares of its common stock. On November 21, 1989, the Company sold an additional 360,000 shares upon the exercise of an over-allotment option granted to the underwriters in connection with the initial public offering. Costs associated with the offering, including discounts granted to underwriters, were approximately \$2,398,000.

Preferred stock - Prior to the Company's initial public offering, dividends on preferred stock accumulated quarterly and were paid in shares of preferred stock. Each share of preferred stock was entitled to one vote on amendments to the Company's articles of incorporation and was convertible into 2.4 shares of common stock at various dates. Effective November 8, 1989, in conjunction with the initial public offering, each outstanding preferred share was automatically converted into common stock.

Capital stock transactions - The Company entered into an agreement with Mitsubishi Corporation and Mitsubishi International Corporation (collectively, "Mitsubishi") whereby the Company, in March 1989, sold to Mitsubishi 314,480 shares of common stock at \$6.25 per share and 35,633 shares of Series B preferred stock.

The Company entered into an agreement with American President Companies, Ltd. ("APC") whereby the Company, in March 1989, sold to APC 314,480 shares of common stock at \$6.25 per share and 35,633 shares of Series C preferred stock.

Stock options - The Company has non-qualified stock options outstanding to key employees under its 1988, 1989, and 1990 Stock Option Plans. All plans other than the 1990 Plan have been terminated as to future grants. Options granted under these plans are not less than the fair market value at the date of grant, and subject to termination of employment, expire ten years from date of grant, and are generally exercisable in annual installments over three to five years.

Additionally, certain options are outstanding resulting from grants by a predecessor Company.

The following is a summary of 1991 transactions in these plans:

	Shares	Option Price	
		Per Share	Total
Outstanding at December 31, 1990	903,255	\$ 0.06 - \$ 6.67	\$ 4,822,000
Granted	184,200	\$ 6.67 - \$ 19.17	1,989,000
Cancelled	(118,601)	\$ 6.25 - \$ 6.67	(783,000)
Exercised	(411,466)	\$ 0.06 - \$ 6.67	(2,025,000)
Outstanding at December 31, 1991	<u>557,988</u>	\$ 0.06 - \$ 19.17	<u>\$ 4,003,000</u>
Exercisable at December 31, 1991	<u>163,164</u>	\$ 0.06 - \$ 6.67	<u>\$ 630,000</u>

At December 31, 1991, 81,130 shares were available for future grants under the 1990 Stock Option Plan.

## 6. Income taxes

In 1988, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("SFAS 96"), which requires the liability method of accounting for income taxes. Adoption of SFAS 96 had no significant impact on the Company's consolidated financial statements. In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), superseding SFAS 96, which in certain circumstances



enables increased recording of deferred tax assets. This new pronouncement is effective in 1993, although earlier adoption is encouraged. The Company has not determined the effect of adopting SFAS 109 on the consolidated financial statements but expects the immediate favorable impact, if any, will not be material.

At December 31, 1991, the Company had net operating loss carryforwards of approximately \$27,000,000 for both financial reporting and federal income tax purposes, of which approximately \$1,800,000 of the federal income tax carryforward will expire unutilized due to limitations from a change in ownership on March 18, 1987. The tax carryforwards expire beginning in 1998. There are differences between the federal income tax and financial statement carryforwards primarily due to deferred license revenues which have already been included in federal taxable income, the use of accelerated depreciation methods, and the capitalization of certain costs associated with purchase price allocations and start-up costs which are not currently deductible for federal income tax purposes. Research credits of \$500,000 are also available through 2006 to reduce future federal income taxes. The Tax Reform Act of 1986 (the "Act") contains an alternative minimum tax which, if taxable income is generated in the future, could result in the Company's being required to pay federal income taxes and defer recognition of its net operating loss carryforward over a longer period of time than would have been required under the tax laws in effect prior to enactment of the Act.

7. Commitments

Leases - The Company leases its office and manufacturing facilities. Rental expense for 1991, 1990, and 1989 was \$1,032,000, \$599,000, and \$403,000, respectively. Approximately \$231,000 and \$195,000 in office rentals were paid to a related party in 1990 and 1989, respectively. Certain facility leases have renewal options ranging from one to five years.

Minimum future payments on operating leases with initial or remaining terms of one year or more at December 31, 1991, are as follows:

1992	\$ 867,000
1993	714,000
1994	674,000
1995	551,000
1996	<u>          </u>
	<u>\$ 2,806,000</u>

8. Significant customers, export sales, and foreign operations

In 1991, the Company had one unrelated major customer which accounted for approximately 34% of sales. Four related party customers accounted for approximately 6% of sales. In 1990, the Company had two unrelated major customers which accounted for approximately 28% and 13% of sales, and three related party customers which accounted for approximately 6% of sales. In 1989, the Company had two major customers, which are also related parties, which accounted for approximately 20% and 10% of sales, and three other unrelated major customers which accounted for approximately 13%, 12%, and 11% of sales.

Export sales accounted for approximately 26%, 30%, and 42% of the Company's sales during the years ended December 31, 1991, 1990, and 1989, respectively.

Sales by geographic region are summarized as follows:

	For the year ended December 31,		
	1991	1990	1989
North America	76%	71%	59%
Far East	3%	6%	10%
Europe	21%	23%	31%

The Company's two European marketing and support offices incurred operating losses of \$1,559,000 and \$669,000 in 1991 and 1990, respectively, and accounted for \$279,000 of consolidated assets and \$93,000 of consolidated liabilities at December 31, 1991. See Note 11.

#### 9. Contract settlement

Other income in 1990 includes a \$687,000 compensatory payment made by the government of Norway as a result of its cancellation of the Company's contract with an entity owned by the City of Oslo. The proceeds reimbursed the Company for costs incurred in bidding on and preparing to implement the contract.

#### 10. Employee benefit plan

The Company has a retirement savings plan structured under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees meeting minimum service requirements. Under the plan, contributions are voluntarily made by employees and the Company may provide matching contributions based on the employees' contributions. The Company incurred no expense in 1991, \$60,000 in 1990 and \$27,000 in 1989 for matching contributions relating to this plan.

#### 11. Joint venture

In October 1991 the Company entered into a joint venture with Alcatel AVI S.A., a subsidiary of Alcatel N.V. The resulting company, named Alcatel Amtech S.A. ("AASA"), is owned approximately 51% by Alcatel AVI S.A. and 49% by the Company. As part of the formation of the joint venture, the Company transferred its shares of Amtech SARL ("SARL"), formerly a wholly owned European subsidiary of the Company, to AASA.

Pursuant to various agreements between the Company and AASA, the Company received approximately \$2,400,000 for repayment of SARL's net intercompany advances, approximately \$2,800,000 for various manufacturing license and marketing license rights, and approximately \$650,000 for certain product development to be provided to AASA. Proceeds relating to the manufacturing license and marketing license rights are deferred and are being amortized over five years on a straight line basis. The Company is entitled to receive an additional \$2,000,000, to be provided by Alcatel AVI S.A., upon completion of certain new product development work and up to a further \$5,000,000 based on AASA's use of integrated circuit chips using the Company's proprietary technology. Additionally, Alcatel AVI S.A. has agreed to loan AASA specified amounts (increasing up to approximately \$5,500,000 in 1994), if needed for operations, with the Company severally guaranteeing such borrowings (none at December 31, 1991) in a proportion equal to the percentage of its equity ownership of AASA.

The net assets of SARL at December 31, 1990, approximately \$870,000, consisted primarily of working capital (including accounts receivable, inventories, accounts payable and accrued liabilities), and equipment and improvements. The Company had accounts receivable from AASA amounting to \$585,000 at December 31, 1991.